

Borealis Exploration Limited

1700 AQUITAINE TOWER • 540 FIFTH AVENUE SOUTH WEST

CALGARY, ALBERTA, T2P 0M2 • CANADA

403-233-2218 • 503-621-3286 • TELEX 03-824831

ANNUAL REPORT FOR THE YEAR ENDED MARCH 31, 1986

BOARD OF DIRECTORS

John W. Abernethy, P.Eng.
Henry M. Beaumont, Q.C.
Chana B. Cox, Ph.D.
Rodney T. Cox, Ph.D.
Ronald A. Kettles
Wayne S. Marshall, Ph.D.
Jasi Nikhanj, M.Sc.
Cameron O. Smith, M.S.
John M. Taylor, P.Eng.

OFFICERS

Rodney T. Cox, Chairman of the Board/Chief Executive Officer
Jasi Nikhanj, Vice President Exploration
Joseph T. Mattson, Vice President Development/Director,
Operational Planning
David M. Goldenberg, Secretary
Chana B. Cox, Vice President Director of Planning

COUNSEL

David M. Goldenberg, LL.B.
Beaumont Church
Calgary, Alberta

AUDITORS

Collins Barrow
Calgary, Alberta

STOCK EXCHANGE LISTING

Alberta Stock Exchange
Symbol: BSX

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company
411 8th Avenue S.W.
Calgary, Alberta

INCORPORATED

Dominion Charter: August 26, 1968
Dominion Continuance: September 10, 1979

DATE OF ANNUAL SHAREHOLDERS MEETING

September 22, 1986

HIGHLIGHTS OF THE 1986 FISCAL YEAR

--IN 1985 GOLD WAS DISCOVERED IN THE KEEWATIN ON BSX 1070 AND DRILLING HAS CONFIRMED THE CONTINUITY OF GOLD STRUCTURES TO DEPTH

-- THE COMPANY WAS SUBSEQUENTLY ABLE TO ACQUIRE AN ADDITIONAL 600,000 ACRES IN THE AREA TO GIVE BOREALIS THE DOMINANT LAND POSITION IN THE RANKIN/ENNADAI GREENSTONE BELT

-- THE COMPANY SUCCEEDED IN RAISING OVER \$5,500,000 THROUGH THE SALE OF CAPITAL STOCK AND THE COMPANY'S DEBT WAS ELIMINATED

A SECOND DISCOVERY HAS NOW BEEN CONFIRMED ON LAND EARNED-OUT TO NOBLE PEAK RESOURCES LTD. THE DISCOVERY ON BSX 1086 ESTABLISHES THE FACT THAT GOLD ON BSX 1070 IS NOT AN ISOLATED OCCURRENCE--BOREALIS HAS A REGIONAL GOLD PLAY.

REPORT TO THE SHAREHOLDERS: AUGUST 15, 1986

Borealis has had a very good year. The Company was able to eliminate all its debt and to mount a major exploration program which resulted in the discovery of the Company's gold property on BSX 1070 and adjacent claims.

On the assumption that the gold BSX 1070 was not an isolated occurrence, the company acquired most of the land of geological interest in the district -- over 650,000 acres.

That assumption has now 'panned out'. What appears to be a very promising gold discovery was made on Permit 1086 farmed-out to Noble Peak Resources Ltd. The Noble Peak farm-out is located approximately forty miles to the north, northwest of BSX 1070. Noble Peak's preliminary results show ore grade assays over horizons which are wide and long. (See the reprint of Noble Peak's letter to its shareholders.)

Noble Peak will meet the full costs of the exploration and development program on BSX 1086. Under the terms of the farm-out agreement, Borealis has a 50% interest in the Permit

until the pay out of development costs, and then Borealis will have a 60% interest in the mine. Borealis has also acquired 2,500,000 shares in Noble Peak with a current market value of approximately \$7,000,000.

Work continues on the Borealis Roche Bay Magnetite Project as well as reconnaissance work on the Company's other newly permitted areas. Both exploration drilling and development drilling are scheduled to begin again later this month. The purpose of the development drilling is to block out limited reserves in the Fat Lake region of BSX 1070.

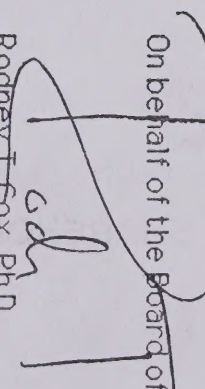
Joseph T. Mattson has joined the company as Vice President of Development. Mr. Mattson comes to us with over 25 years of experience in every aspect of mine and mill development. One of Mr Mattson's primary responsibilities is to supervise the mill design and mine development of BSX 1070.

A flow-through share private placement is in progress and, to the extent that this is successful, work will proceed toward more extensive drilling and development on BSX 1070 and several of the newly acquired Permits.

Borealis is stronger than it has ever been. Its financial conditions have improved dramatically; it has established its gold discovery in the Keewatin; and it is now working toward development of Box 1070 and the establishment of the Rankin/Ennadai Greenstone belt as a major gold mining region.

The immediate future remains challenging. We acknowledge the dedication and the tireless efforts of our staff and the loyal support and continuing confidence of our shareholders.

On behalf of the Board of Directors,


Rodney T. Cox, Ph.D.
Chief Executive Officer/
Chairman of the Board

BOREALIS EXPLORATION LIMITED
INFORMATION CIRCULAR

Winspear Business Library
1-18 Business Building
Edmonton, Alta. T6G 2R6

1. SOLICITATION OF PROXIES:

This information circular is furnished in connection with the solicitation of proxies by the Management of Borealis Exploration Limited ("Company") for use at its Annual Meeting of Shareholders to be held September 22, 1986 for the purposes set forth in the accompanying Notice of Meeting. It is expected that the solicitation will be primarily by mail, but proxies may also be solicited by the officers of the Company, personally or by telephone. The cost of solicitation will be borne by the Company.

The information contained here is given as of June 30, 1986, unless otherwise indicated. All dollar figures set forth are expressed in Canadian dollars.

2. QUORUM AND VOTING:

The capital of the Company consists solely of common shares without par value of which 2,277,900 shares were outstanding at the close of business March 31, 1986.

Each holder of a common share of record at the date of the meeting is entitled to attend the meeting and to one vote for each share. Any resolution to be voted upon at the meeting must be approved (a) by a majority of the votes cast, unless the Canada Business Corporations Act stipulates a number or proportion of the votes cast in excess of a majority in which case, by such stipulated majority or proportion; and (b) by a majority of holders of common shares present in person or by proxy.

Where common shares are beneficially owned (a) by one person but registered in the names of several persons (b) by a group of persons not dealing at arm's length with each other; or (c) by a group of persons acting in concert by virtue of any contract, agreement, or other understanding, then, in such case, only one person may be counted as being present in person or by proxy with respect to such shares. Borealis will determine whether share holders were acting in concert, depending on the circumstances and evidence, if any, that shareholders were in fact so doing and should therefore be treated as one stockholder.

3. REVOCATION OF PROXIES:

Each shareholder has the power to revoke a proxy at any time as long as it has not been exercised. In addition to revocation in any other matter permitted by law, a shareholder giving a proxy pursuant to this solicitation who wishes to revoke the proxy instrument may do so in writing executed by the shareholder or his attorney authorized in writing, or, if the shareholder is a Corporation, under its Corporate seal or by an Officer or attorney thereof duly authorized, and deposit it either at the Head Office of the Company at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof at which the proxy is to be used, or with the Chairman of such meeting on the day of the meeting, or adjournment thereof.

4. PRINCIPAL HOLDERS OF VOTING SHARES:

To the knowledge of the Directors and Officers of the Company, the only persons who beneficially own or exercise control or direction over shares carrying more than ten percent of the votes attached to shares of the Company are as follows:

Name	Number of Shares Beneficially Owned	% of Outstanding Shares
Milner & Steer(1)	572,533	25%
Cede & Co.(2)	248,245	11%

Note:

(1) Milner & Steel hold these shares as escrow agents in trust for The Catawba Corporation. The Catawba Corporation is the beneficial holder of 662,533 shares, 29% of outstanding shares. The Company has an option to purchase these shares for cancellation, by July 1987. These share figures are as of August 1, 1986.

(2) Cede & Co. is not the beneficial owner of these shares. Cede & Co. is a brokers' nominee account holding shares on behalf of a large number of shareholders.

5. ELECTION OF OFFICERS

Present Directors and their terms of office are as follows:

Name	Number of Years
Wayne S. Marshall, Ph.D.	6
John M. Taylor, P.Eng.	5
John W. Abernethy, P.Eng.	4
Jasi Nikhanj, M.Sc.	4
Cameron O. Smith, M.S.	3
Rodney T. Cox, Ph.D.	2
Ronald A. Kettles	2
Chana B. Cox, Ph.D.	1
Henry M. Beaumont, Q.C.	Up for Election

The enclosed instrument of proxy will be voted for the following proposed nominee (or for a substitute nominee in the event of contingencies not known at present) who will serve for a period of 7 years, or until his successors are elected or appointed in accordance with the by-laws of the Company, or as long as is allowed under the Canada Business Corporations Act.

This is to fill the Directorship of the expiring term.

Henry M. Beaumont became a Director of the Company September 10, 1979. Henry M. Beaumont is Senior Partner in the law firm of Beaumont Church, Calgary, Alberta. He has been a director of many private companies. Henry M. Beaumont owns directly or indirectly 2,000 common shares of the Company.

THE PRESENT POSITION AND OFFICE WITH THE COMPANY IF APPLICABLE, AND THE PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT OF THE INCUMBENT DIRECTORS AND OFFICERS ARE AS FOLLOWS. UNLESS OTHERWISE STATED, SUCH OCCUPATION OR EMPLOYMENT HAS CONTINUED FOR MORE THAN THE LAST FIVE YEARS.

John W. Abernethy became a Director of the Company October 20, 1983. He is President of J.W. Abernethy Management & Consulting Ltd. He was previously with Loram International Ltd. from 1970 to 1984 and Manager Mining Division for 1981 to 1984. John W. Abernethy owns directly or indirectly 700 common shares of the Company.

Chana B. Cox has been Director of Planning of the Company since July 2, 1980, and became a Director May 18, 1982. She is also a Director and Secretary of Thales Resources, Inc., and is a partner in The Parmenides Group. Chana B. Cox beneficially owns directly or indirectly 153,422 common shares of the Company.

Rodney T. Cox has been Chairman of Board/Chief Executive Officer of the Company since June 26, 1984 and has held similar positions since December 27, 1978; at which time he also became a Director. He is a Director of Thales Resources, Inc., and is a partner in The Parmenides Group. Rodney T. Cox beneficially owns directly or indirectly 145,839 common shares of the Company.

David Goldenberg has been the Solicitor for the Company since 1979, and has served as the Corporate Secretary since 1982. David Goldenberg is a Partner in the law firm of Beaumont Church and deals primarily in Corporate Law. Mr. Goldenberg owns directly or indirectly 2,000 common shares of the Company.

Ronald A. Kettles has been Vice President of Becnor Construction Company Limited since March 1985. Previously Mr. Kettles was with Bechtel Canada Limited where he held various senior construction and project management positions including Site Manager and Project Manager for the Polaris Project. Ronald A. Kettles beneficially owns 200 shares directly or indirectly of the Company.

Wayne S. Marshall, Ph.D. is Professor of Business Administration at Long Island University. Previously he was professor of business administration at Columbia University from 1963 to 1968. Wayne S. Marshall beneficially owns, directly or indirectly 33,000 shares of the Company.

Joseph T. Mattson became Director of Development for Borealis Exploration Incorporated on March 15, 1986. Mr. Mattson became Director of Operational Planning for Borealis Exploration Limited on June 30, 1986 and Vice President - Development on July 22, 1986. Previously Mr. Mattson was Director of Coal Projects with Sunedco Coal Company, a subsidiary of Sun Company, from December 1982 until March 1986. From 1980 until 1982 Mr. Mattson was Vice President and Manager of Mineral Processing with Scott-Ortech Inc. From 1961 until June 1980 Mr. Mattson worked as Project Engineer, Project Manager, and Manager of Project Systems for Stearns-Roger, Mining and Metallurgical Division. Joseph T. Mattson owns directly or indirectly 5,500 common shares of the Company.

Jasi Nikhanj, M.Sc. was appointed chief geologist to the Company August 1984 and Vice President of Exploration June 5, 1985. Mr. Nikhanj is the president of Nikhanj and Associates Geo-Consulting. Previously Mr. Nikhanj held the positions of District Manager and Corporate Technical Adviser with the minerals division of TOTAL Petroleum Limited from 1976 to 1984. He was a senior geologist with BP-Minerals, Canada from 1972 to 1975. Mr. Nikhanj beneficially owns directly or indirectly 5,300 common shares of the Company.

Cameron O. Smith became a Director of the Company December 19, 1978. He is an employee of the Catawba Corporation of which he became a Director in July 1977. In July 1978 Cameron O. Smith became Vice President and a President of Taconic Petroleum Corporation. Cameron O. Smith owns directly or indirectly 26,550 common shares of the Company.

John M. Taylor became a Director of the Company March 21, 1984. He is a Director of United Canso Oil & Gas Ltd. since March 8, 1983 and President since May 12, 1983. Chairman and Director, since 1967 of Panarctic Oils Ltd. and since 1981 of Imperial Continental Gas Ltd.; since 1981 Director Canadian Liquid Air Ltd., October 1969 to May 1980 President PanCanadian Petroleum Ltd. and its predecessor corporations; 1976-1977, President, Independent Petroleum Association of Canada. John M. Taylor owns directly or indirectly 1 common share of the Company.

6. REMUNERATION OF MANAGEMENT:

During Fiscal 1985, 6,400 shares and \$209,980 in cash with a value of \$309,480 was paid to management directly and as independent consultants for services rendered.

In addition, the Directors received \$10.00 for each Directors' meeting attended. There is no reimbursement to Directors for expenses related to attending Directors' meetings.

7. APPOINTMENT OF AUDITORS:

Unless otherwise specified therein, it is intended to vote the accompanying proxy instrument to appoint Buchanan Barry & Co. as auditors of the Company, to hold office until the next annual meeting of shareholders, and to authorize the Directors to fix their remuneration.

8. DIRECTORS AND OFFICERS INSURANCE:

The Company does not have any insurance in effect for the benefit of the Company and its Directors and Officers in respect of the performance by them of the duties of their office.

9. INTEREST OF LARGE SHAREHOLDERS IN MATERIAL TRANSACTION WITH BOREALIS EXPLORATION LIMITED:

Rodney T. Cox, Chana B. Cox and The Parmenides Group have assumed certain of the operating costs of the Company, have lent funds to the Company, and have guaranteed without remuneration Company obligations. See Notes to the audited financial statements.

10. GENERAL:

The Management knows of no matter to come before the Annual Meeting other than the matters referred to in the Notice of the Meeting. If any matters which are not now known to the Management should properly come before the meeting, the accompanying proxy instrument will be voted on such matters in accordance with the best judgement of the person or persons voting it.

The contents and sending of this information have been approved by the Directors of the Company.

Dated this Fifteenth day of August, 1986.

Rodney T. Cox, Ph.D.
Chairman of the Board/Chief Executive Officer



Collins
Barrow

Chartered Accountants

200 East Canada Square
2400 Avenue Road, Suite 1200
Calgary, Alberta T2C 1A1
403-241-1100
Telex 092217-0

AUDITORS' REPORT

To the Shareholders
Borealis Exploration Limited

We have examined the consolidated balance sheet of Borealis Exploration Limited as at March 31, 1986 and the consolidated statements of exploratory and development and general and administrative expenses deferred, deficit and cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards in Canada, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1986 and the changes in its exploratory and development and general and administrative expenses deferred and cash flow for the year then ended in accordance with generally accepted accounting principles in Canada applied on a basis consistent with that of the preceding year.

Collins Barrow

CHARTERED ACCOUNTANTS

Calgary, Canada
August 8, 1986

COMMENTS BY AUDITOR FOR U.S. READERS ON CANADA-U.S. REPORTING CONFLICT

In the United States, reporting standards for auditors require the expression of a qualified opinion when the financial statements are affected by uncertainties in connection with the ultimate recovery of costs such as those more fully referred to in the attached balance sheet as at March 31, 1986 and as described in note 1(a) of the financial statements. The opinion in our report to the shareholders dated August 8, 1986 is not qualified with respect to, and provides no reference to, these uncertainties since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements.

Collins Barrow

CHARTERED ACCOUNTANTS

200 East Canada Square
2400 Avenue Road, Suite 1200
Calgary, Alberta T2C 1A1
August 8, 1986

CONSOLIDATED BALANCE SHEET

MARCH 31, 1986

	ASSETS	1986	1985
Current assets			
Cash	\$	138,974	\$ 251,882
Accounts receivable		24,292	-
Deposits (note 2)		58,163	-
Due from a shareholder (note 3)		120,361	-
Restricted cash		341,790	251,882
		-	89,050
Property held for resale, at cost		365,000	-
Investment in shares (market value - \$7,750,000) (note 4)		1,100,000	-
Mining leases, claims and exploratory permits		315,310	315,310
Exploratory and development and general and administrative expenses deferred		8,082,576	6,326,236
	\$	10,204,676	\$ 6,982,478
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$	236,034	\$ 220,840
Due to shareholder		-	395,384
Debentures payable		-	1,232,548
Agreement payable (note 5)		193,908	193,908
SHAREHOLDERS' EQUITY			
Capital stock (note 6)		9,873,951	4,575,273
Contributed surplus (note 7)		513,217	585,835
Deficit		(612,434)	(221,310)
		9,774,734	4,939,798
Contingent liabilities and commitments (notes 10 and 11)			
	\$	10,204,676	\$ 6,982,478

Approved on behalf of the Board,

Director

Director

BOREALIS EXPLORATION LIMITED

CONSOLIDATED STATEMENT OF CASH FLOW

YEAR ENDED MARCH 31, 1986

1986

1985

Financing activities		
Proceeds from issue of capital stock	\$ 5,578,713	\$ 2,850,850
Repayment to a shareholder, net	(515,745)	(1,848,112)
Advances (repayment) of debentures payable, net	(1,232,548)	1,232,548
Cancellation of capital stock	(140,305)	-
Guarantee fees	-	(91,000)
Share issue expenses	(212,348)	(61,594)
	<u>3,477,767</u>	<u>2,062,692</u>

Investing activities		
Exploration and development and general and administrative expenses deferred	(2,156,562)	(1,218,475)
Investment in shares	(1,100,000)	-
Investment on property held for resale	(365,000)	-
Purchase of mining leases, claims and exploratory permits	-	(300,000)
	<u>(3,621,562)</u>	<u>(1,518,475)</u>

Cash inflow (outflow)	(143,795)	564,217
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Cash and equivalents (deficiency), beginning of year	340,932	(223,285)
Cash and equivalents, end of year	<u>\$ 197,137</u>	<u>\$ 340,932</u>

Cash and equivalents is comprised of:		
Cash	\$ 138,974	\$ 251,882
Deposits	58,163	-
Restricted cash	-	69,050
	<u>\$ 197,137</u>	<u>\$ 340,932</u>

BOREALIS EXPLORATION LIMITED

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED MARCH 31, 1986

1986

1985

Deficit, beginning of year	\$ 221,310	\$ 200,281
As previously stated	-	21,029
Reclassified to contributed surplus	-	-

Deficit, as restated, beginning of year	221,310	221,310
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Add: Exploratory and development and general and administrative expenses relating to prospecting permits relinquished	391,124	-
Deficit, end of year	<u>\$ 612,434</u>	<u>\$ 221,310</u>

BOREALIS EXPLORATION LIMITED

CONSOLIDATED STATEMENT OF EXPLORATORY AND DEVELOPMENT AND GENERAL AND ADMINISTRATIVE EXPENSES DEFERRED

YEAR ENDED MARCH 31, 1986

Balance March 31, 1985		Balance March 31, 1986
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Exploratory and development expenses	\$ 369,281	\$ 93,861	\$ 463,142
Northwest Territories, Canada	189,804	25,495	215,299
Assays	439,501	3,519	443,020
Direct administration	174,383	-	174,383
Engineering study	11,862	-	11,862
Transportation study	(9,036)	-	(9,036)
Northern Mineral Exploration Assistance Program	268,193	472,058	740,251
Salaries and benefits	565,001	209,456	774,457
Drilling	21,022	25,070	46,092
Contractors' fees	599,554	54,913	654,467
Transportation and travel	89,394	47,647	137,041
Camp and accommodation	39,504	68,524	108,028
Equipment rental	1,360,542	180,701	1,541,243
Consultants' fees and expenses	125,417	111,841	237,258
Fuel, materials and supplies	36,845	1,420	38,265
Miscellaneous	50,006	9,117	59,123
Trenching and geophysical	24,018	300	24,318
Surveying	11,844	169,300	181,057
Aircraft expenses	4,367,135	1,473,135	5,840,270

Less: Expenses relating to prospecting permits relinquished	-	286,384	286,384
	<u>4,367,135</u>	<u>1,186,751</u>	<u>5,553,886</u>

Geological, aircraft and sundry equipment, less accumulated depreciation	50,569	94,206	144,775
Total exploratory expenses	<u>4,417,704</u>	<u>1,280,957</u>	<u>5,698,661</u>

General and administrative expenses	95,246	22,811	118,057
Financial, technical and professional services	63,030	61,032	124,062
Salaries and office services	1,180,930	90,477	1,271,407
Lease and exchange	200,332	86,892	287,214
Legal and accounting	69,272	-	69,272
Specialised services	120,832	25,955	146,787
Shareholders' expenses	71,256	42,961	114,217
Depreciation	358,150	53,328	411,478
Professional fees and services	345,023	197,318	542,341
Office, travel and miscellaneous	111,000	725	111,725
Guarantee fees	(46,978)	(1,366)	(48,344)
Interest income and miscellaneous	2,568,093	580,123	3,148,216

Less: Amounts recovered from partners	111,325	-	111,325
	<u>2,456,768</u>	<u>580,123</u>	<u>3,036,891</u>

Less: Portion of general and administrative expenses considered allocable to interests abandoned or sold	548,236	104,740	652,976
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Total general and administrative expenses	<u>1,908,532</u>	<u>475,383</u>	<u>2,383,915</u>
	<u>\$ 6,326,236</u>	<u>\$ 1,756,340</u>	<u>\$ 8,082,576</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1986

1. Summary of significant accounting policies

The consolidated financial statements of the company are stated in Canadian dollars and have been prepared by management in accordance with accounting principles generally accepted in Canada consistently applied. These consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and in light of information available up to August 8, 1986. Significant accounting policies are summarized below:

(a) Mining operations

The properties in which the company has interests are in the development stage and accordingly, all expenditures (less revenues and amounts recovered from partners and others) have been capitalized or deferred, except that costs and expenses applicable, or considered allocable to areas abandoned and other losses have been charged to deficit. Gains or losses on disposal of mining claims or leases are ordinarily credited or charged to deficit.

The ultimate recovery of the costs of the mining properties and the exploratory and development and general and administrative expenses deferred is dependent upon the company's ability to obtain adequate financing in order to complete the development of the properties, and upon future commercial and profitable production.

No provision for amortization of the amount carried for mining leases or for exploratory and development and general and administrative expenses deferred is included in the accompanying financial statements.

Depreciation has been provided for on geophysical, aircraft and sundry equipment using the declining balance method at rates varying from 20% to 30% per annum.

(b) Principles of consolidation

The consolidated financial statements include, in addition to the accounts of the company, the accounts of its wholly-owned subsidiary, Borealis Exploration Incorporated.

(c) Investment in shares

The company's investment in shares (note 4) has been accounted for using the equity method of accounting where the investment is initially recorded at cost and the carrying value adjusted thereafter to include the company's pro rata share of post acquisition earnings.

(d) Foreign currency translation

The accounts of the foreign subsidiary and other foreign denominated transactions have been translated to Canadian dollars using the temporal method on the following basis: monetary items at the rate of exchange at the year-end; other assets and liabilities at the historical rate of exchange. The items in the statement of exploratory and development and general and administrative expenses deferred are translated at the average rates of exchange prevailing during the year.

(e) Flow-through shares

During the year, the company issued flow-through shares through which expenditures were made in accordance with certain provisions of the Income Tax Act (Canada) which provides for the income tax deductions attributed to them to flow through to subscribers and accordingly, they have a nil income tax cost to the company.

The value assigned to the properties upon which subscribers' funds were expended is the actual dollar amount of the expenditures with such expenditures being deferred as described in note 1(a). Share capital has been recorded based on cash received.

2. Deposits

Pursuant to the requirements of the Canada Mining Regulations, the company has deposited \$66,163 with the Government of Canada for work performance requirements.

3. Due from a shareholder

The amount due to a shareholder at the beginning of the year and during the year arises from cash advances and payments on behalf of the company made by a partnership controlled by the chief executive officer of the company. The amount payable has no stated terms of repayment and bears interest at a chartered banks prime rate plus 3%. During the year, interest charges amounted to \$9,221, which is included in the balance outstanding. The amount receivable from a shareholder at year end results from a temporary cash surplus credited to the shareholder subsequently advanced back to the company after year end.

4. Investment in shares

Pursuant to an agreement dated March 31, 1986, the company acquired 2,500,000 common shares of Noble Peak Resources Ltd. in exchange for 27,500 common shares of the company. The acquisition resulted in a 55% interest in post acquisition issued shares. Due to the existence of a voting trust in effect until March 31, 1989, the company is unable to exert control and, as such, the accounts of Noble Peak Resources Ltd. have not been consolidated.

Noble Peak Resources Ltd. is a deferred exploration company. The company's share of the net book value acquired at the date of purchase is \$210,407.

Net assets acquired consist of:

Working capital deficit	\$ (62,531)
Share obligation	(60,500)
Mineral properties and deferred expenditures	1,223,031
	<u>\$ 1,100,000</u>

Pursuant to this agreement, the company entered into an agreement whereby Noble Peak Resources Ltd. will pay 100% of the exploration and development expenditures to production on certain of the company's mining permits to earn a 50% interest before payout and a 40% interest after payout. The agreement requires expenditures of \$1,500,000 and a production decision prior to March 31, 1989 or the interest on the property reverts back to the company.

5. Agreement payable

	1986	1985
Principal	\$ 143,000	\$ 143,000
Accrued interest	50,908	50,908
	<u>\$ 193,908</u>	<u>\$ 193,908</u>

The agreement payable is in connection with services provided by an engineering company. An agreement was reached whereby payment would be deferred until the company obtained funding for the company's mining project. The agreement provided for interest at the rate of 18% per annum. During 1985, litigation was commenced and, as such, no interest has been accrued for the current or prior year. The outcome of the dispute, in the opinion of management, is that the legal action will be resolved in favor of the company.

6. Capital stock

a) Authorized capital stock of the company consists of an unlimited number of common shares without par value.

b) Issued capital stock of the company consists of the following:

	Number of Shares	Stated Value
Balance, March 31, 1985	2,027,216	\$ 4,575,273
Issued:		
As repayment in part of due to shareholder (note 3)	30,586	489,375
As repayment of debentures payable	117,947	1,310,801
Pursuant to acquisition of property held for resale	9,605	365,000
Pursuant to a flow-through share agreement	18,000	648,000
For cash	37,293	615,850
In exchange for services	19,702	551,667
	233,133	3,980,713
To be issued:		
In exchange for services	1,200	48,000
Pursuant to investment in shares (note 4)	27,500	1,100,000
Pursuant to warrants attached to a flow-through share agreement	9,000	450,000
	37,700	1,598,000
	2,298,049	10,153,986
Less:		
Shares cancelled pursuant to resolution of litigation	149	583
Shares cancelled pursuant to a repurchase option agreement [note 6(d)]	20,000	67,104
	20,149	67,687
	2,277,900	10,086,299
Less: Share issue costs	-	144,180
Signing fee pursuant to a repurchase option agreement [note 6(d)]	-	68,168
Balance, March 31, 1986	2,277,900	\$ 9,873,951

c) Pursuant to a flow through share agreement the company has reserved 9,000 shares for warrants issuable up to August 23, 1986 at a price of \$50 per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1986

6. Capital stock (cont'd)

d) By Board of Director resolution dated June 5, 1985, the company has entered into an option agreement dated June 20, 1985 with a major shareholder whereby the company has been granted an option to repurchase 702,533 shares of the company at \$5.00 U.S. (\$6.85 Cdn.) per share. The option cost the company an initial payment of \$50,000 U.S. (\$68,500 Cdn.) and called for additional payments every three months, commencing October 15, 1985, of the greater of \$50,000 U.S. (\$68,500 Cdn.) or 30% of the excess funds (as defined in the agreement) of the company in order to maintain the option until July 15, 1987.

e) By letter agreement dated March 1, 1983, one of the major shareholders of the company agreed to lend the company 200,000 shares of Borealis Exploration Limited for the purposes of raising or securing funds. The company had in turn lent the shares to a partnership controlled by the chief executive officer of the company for the purposes of raising or securing funds for the company.

Under the terms of an option agreement dated June 20, 1985 [note 6(d)], the company shall deliver 10,000 of the loaned shares to the Escrow Agent every three months for cancellation, commencing July 15, 1986, with all of the loaned shares to be delivered, as above, before March 15, 1987. Subsequent to year-end, 110,000 of these shares were delivered to the Escrow Agent.

f) By authorization of the company, the president, at his sole discretion, can authorize the issue of up to 12,000 shares in the aggregate per annum to any individual as compensation for work done for or on behalf of the company.

g) By Board of Directors' resolution, the Company has granted an option to a consultant to acquire 6,579 shares at \$28 per share until March 3, 1987.

7. Contributed surplus

During the year, the company redeemed and cancelled 20,149 shares at a cost of \$140,305 to the company. The excess of cost over the assigned value of the capital stock cancelled in the amount of \$72,618 has been applied to reduce the company's contributed surplus.

8. Economic dependence

In order to finance capital expenditures, the company has incurred significant liabilities. As the company has not yet established a self-sustaining cash flow from operations, it is primarily dependent upon certain shareholders for financial support (see notes 3 and 9).

9. Related party transactions

a) The company has had numerous financial transactions with the chief executive officer. These transactions consist of cash advances to the company, personal guarantees to and repayment of some of the company's liabilities and repayment of some bank debts of the company. These transactions are fully described in other notes to the financial statements.

MARCH 31, 1986

9. Related party transactions (cont'd)

- b) During the year, 117,947 shares were issued to a partnership controlled by the chief executive officer as repayment of the debentures payable and interest charges for the year of \$78,248.

10. Contingent liabilities

- a) A legal action has been instituted by a former consultant of the company. The plaintiff is claiming for unpaid consulting fees of approximately \$76,000 plus costs of litigation and overdue interest. The company has filed a counterclaim for general damages and for specific damages for nonperformance in a timely manner. The outcome of the dispute, in the opinion of management, is that the legal action will be resolved in favour of the company.
- b) The company has agreed to pay any and all taxes which may be payable in connection with 475,000 shares cancelled prior to March 31, 1985. The amount of tax, if any, is not yet determinable.

11. Commitments

- a) By option agreement dated June 5, 1985 [note 6(d)], the company has granted a gross overriding royalty to a major shareholder as to 1/48 interest on minerals and hydrocarbons mined and oil and gas produced on 10,973 acres of mining leases held by the company.
- b) By agreement dated March 1, 1979 and reaffirmed by the option agreement mentioned in note 6(d), the company granted a royalty interest to a major shareholder based on 5% of the crown royalty interest on 10,973 acres of mining leases currently held by the company.
- c) The company has lease obligations on office premises, commencing November 1, 1985 as follows: 1987 - \$5,625, 1988 - \$13,500, 1989 - \$13,500, 1990 - \$13,500, 1991 - \$7,875.

12. Subsequent event

Subsequent to year end, the company returned the property held for resale to the vendor in exchange for return and cancellation of 9,605 shares [note 6(b)] and \$30,000 cash.

13. Statutory information

The company has nine directors. 8,500 shares (6,400 in 1985) were issued or are to be issued and \$200,757 in cash (\$209,980 in 1985) was paid for a total of \$384,257 (\$309,480 in 1985) as remuneration for services rendered by the directors and senior officers (including the five highest paid employees) of the company.

14. Comparative figures

Several comparative figures have been restated to conform with the current year's presentation.

COPY

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REPORT TO SHAREHOLDERS

August 13, 1986

The first results from the Company's Happy Lake field program which began in mid-July are distinctly positive. To date seven mineralized zones have been identified each impressive in length as shown on the accompanying Zone Location Map. Major parts of Zones 1 & 5 and Zones 2 & 6 are exposed over lengths of over one kilometre. The zones as presently known are one to five metres wide.

This first sampling campaign, as expected, ran the full gamut of values from nil through to a high of 3.70 ounces gold per ton. One grade value has been found in Zones 1, 2, 3 and 4. Individual sample results accompany this report. The locations, which assist in the evaluation of the results, are identified by dashed lines on the Sample Location Maps.

Samples from Zone 7 are in for assay. Rock geochem samples from Zones 1, 5 and Zone 6 are also in for analysis at X-Ray Assay Laboratories in Toronto as are soil samples from the area south of Zone 1.

By any measure the results represent an excellent beginning in an area that holds great promise. Mineralization occurs in shear zones paralleling or cross-cutting chemical sediments and/or mafic tufts in close association with pillowed and massive mafic flows. The mineralized shear zones are heavily gossanized and carry massive and/or disseminated pyrite in amounts up to 20%. Varying amounts of pyrrhotite, chalcopyrite and sphalerite together with traces of arsenopyrite have been found in all the Zones. Sericite and fuchsite have also been identified. The experienced reader will recognize the importance of these features to ore deposition.

The field program is being carried out by a husband and wife team Ulla and Rae Knowles with two assistants. In the last report received Ulla noted "It may please Noble Peak to know that on August 2, while sampling trenches in Zone 4, a 2mm nugget of native gold was discovered. Small flecks appear elsewhere on the same specimen." It does indeed as do the assay results from the property.

The Happy Lake property was acquired under an agreement with Borealis Exploration Limited.

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On the Company's Crypto property in Utah a final sampling program of the silver dumps directed to establishing production procedures provided a rude shock. The average grade of 8.26 ounces silver per ton previously reported could not be confirmed, nor was there any agreement in results from the same sample sites. The present sampling did show close agreement with surface sampling and sampling obtained from bulldozer cuts. These results give an overall average grade of 2.07 ounces silver per ton which cannot be recovered profitably. Bench scale tests directed at recovering zinc from a drill defined zinc deposit by bio-leach methods are in progress.

The Company has arranged financing for the Happy Lake project by private placement of 93,750 "flow through" units at \$2.40 per unit. The unit is one common share and one warrant granting the investors the right to purchase an additional share of Noble Peak Resources Ltd. for a period of three years from the date of issue. This will immediately provide the Company with \$225,000 and a total of \$506,250 if the warrants are fully exercised. The details have been presented to the regulatory authorities for approval.

Your continuing support is appreciated. The coming weeks and months will be interesting.

Norman H. Urse, P.Eng.
President